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A.G. WILKINSON & ASSOCIATES
Professional Surveyors • Valuers • Estate Agents • Property Managers • Project Managers
MARCH, 2022
PROPERTY INTELLIGENCE

Grade A Office Market Plummets as Pandemic and Economic Situation Worsen

The past couple of months can be seen as a period of noticeable dormancy for the Hong Kong office market with transaction activity further diminishing particularly of strata-title prime office properties in traditional business districts. In reality, it was obvious that investors as well as potential purchasers have inclined to adopt a more conservative attitude towards participating in this sector in consideration of prevailing pandemic condition and dimmed business outlook.

According to our compiled statistics, the accumulated number of office transactions during December 2021 to February 2022 have suffered significant decreases of 32% when compared to preceding three months' period. In particular, strata-title prime office accommodation offered in the market over the past months are being absorbed at a relatively low rate, reflecting the diminishing demand for this category of office properties at current price levels, and reaffirms the reluctance of end-users or investors to commit to such properties under prevailing market conditions. Further, in view of leasing activity has shown no improvement of late, more concern has been evident over the increasing overall vacancy rates and a distinct possibility of further downward price adjustments.

In retrospect, the market atmosphere for offices began to weaken amid the social unrest and economic uncertainties emerging from the second half of 2019 alongside the decentralisation trend that reduced the overall demand for office space in core business districts such as Sheung Wan/Central, Wan Chai/Causeway Bay as well as Tsim Sha Tsui. Further, the waves of COVID-19 infections in 2020 and 2021 and the resultant tightening of social distancing measures have heavily weighed on investment sentiment while the tense China-US relations also fuelled uncertainties in this sector.

For statistical comparison, in accordance to Government's data, overall Grade A office rental indices in Sheung Wan/Central, Wan Chai/Causeway Bay and Tsim Sha Tsui registered a fall of 20%, 18% and 15% respectively in 2021 when compared to 2019 while overall prices registered a decrease of 15% during the comparison period. At present, both end-users as well as potential purchasers alike are in a considerable degree of uncertainty as to even the medium term outlook for the market, in the absence of any apparent stimulus in the form of a significant economic upturn and containment of the epidemic which could be the prelude for substantially increase demand.

Rental and Price Indices for Grade A Offices in Core Districts During 2019 to 2021

Year	Rents			Prices
	Central / Sheung Wan	Wan Chai / Causeway Bay	Tsim Sha Tsui	Core Districts #
2019	358.9	275.1	231.6	495.7
2020	313.7	250.3	211	413.8
2021	285.1	226.8	196.2	421.6

Core districts include Central, Sheung Wan, Wan Chai, Causeway Bay & Tsim Sha Tsui
Source: Rating and Valuation Department

On the other hand, in accordance to Rating & Valuation Department, overall Grade A office supply situation in 2022 and 2023 is projected to increase to 5.5 million sq.ft., despite there was substantial drop in supply in both 2020 and 2021, while vacancy rates increased from 11.8% in 2020 to 12.5% in 2021. Particularly in 2022, new Grade A completions will be 3 million sq.ft. with Kowloon City contributing 27%, and in 2023, forecast completions will be 2.47 million sq.ft., mainly from Sham Shui Po amounting to 42% of the projected supply. However, on examination of supply situation in core business districts, it is noticeable that no new completions were recorded as well as projected in 2021 and 2022. In reality, although these districts have actually been experiencing sharply reduced supply over past few years, prevailing vacancy rates in the range of 7% to 9% have already reached historical high levels.

Nonetheless, the estimated new supply in core business districts is still fairly substantial. We estimate that 37 proposed commercial schemes have already been approved while couple of major projects are due to complete in 2023. In fact, the new supply, for example in 2 Murray Road will provide approximately 465,005 sq.ft. which is roughly equivalent to the total Grade A supply in 2021. Apart from this major development, we expect at least 3.2 million sq.ft. of new office supply including New Central Harbour Front project and Junction of Lin Cheung Road and Austin Road West to come on stream in the next couple of years. Although some proposed office developments will likely be deferred, or will not transpire before 2024, however, if all these projects are progressively completed as per schedules, average office supply in the medium term would actually be substantially higher than past few years, with pressure on prices and rents could be further escalated if demand sustains at prevailing levels.

Selected New Supply of Grade A Office beyond 2023

District	Property / Address	Area of office portion (approx. sq.ft.)	Targeted Completion
Central	The Henderson, 2 Murray Road	465,005	2023
Central	Peel Street / Graham Street Project (Site C)	333,630	2024
West Kowloon	Junction of Lin Cheung Road & Austin Road West	2,600,000	2024 / 2025
Central	Man Yiu Street, New Central Harbourfront (Site 3)	Phase 1: 270,000 Phase 2: 390,000	Phase 1: 2027 Phase 2: 2034

Sources: Lands Department & Market information
For reference only.

Encouraging though, notwithstanding the potential future supply situation is fairly daunting, the overall take-up of Grade A offices, mostly in established business districts improved noticeably from a level of approximately -2 million sq.ft.in 2020 to around -193,752 sq.ft. in 2021, reflecting not only the net decrease in occupied floor space moderated but also illustrating an encouraging upturn in demand partly due to "decentralization" process as gradual increasing number of major lease agreements were evident in the market of late.

On an optimistic view, although Grade A office market has demonstrated a weaker demand and reflected the cautiousness of investors in purchasing commitments during past months, however, with increasing emphasis placed on prevalence of reliable end-user support due to our economy more inter-twined with the Mainland under The National 14th Five-Year Plan and the status quo of Hong Kong remaining as an international financial, transportation and trade centres and a major gateway to China, shall "re-create" an influx of multinational businesses and large corporations in taking up office space in Hong Kong amid abating pandemic condition and a more favourable local economic and business attriutes become apparent.

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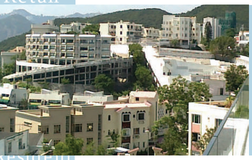


SINCE 1971
A.G. WILKINSON & ASSOCIATES
Residential
March, 2022

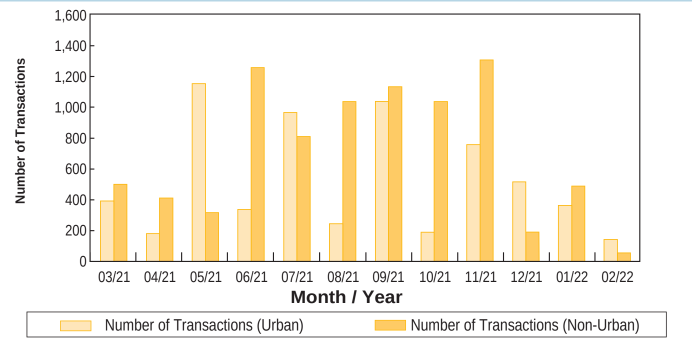
The total number of transactions registered in the Land Registry during December 2021 to February was 22% less than preceding three months' period. In fact, the mass residential market since January has effectively entered into a renewed state of adjustment as the market sentiment was hardly swayed by the 5th wave of COVID-19 pandemic. With reference to Government's statistics, the volume of new and second-hand residential transactions was around 40% and 14% respectively less than the number of transactions registered during the comparison period.

Number of primary sales dwindled

The primary residential sales market underwent new round of contraction amid a fifth COVID-19 pandemic wave hitting the market in early January. In accordance to our compiled statistics, the accumulated number of primary residential transactions in urban areas decreased by 48% while in non-urban areas decreased by 79% during the aforesaid comparable period.

In the presence of pandemic corresponding with weakened market sentiment, buying enthusiasm has been dampened. During past months, developers' new releases have been strategically delayed or postponed. Since several adverse factors combined to overshadow the market, major developers have been very cautious in their marketing planning with an aim to successfully achieve a market boosting result. Hence, given the sensible pricing strategies corresponding with flexible payment terms, the desired effect of attracting attention and positive feedback from buyers, particularly first time buyers and/or investors alike, was still achieved. In fact, resurgent interest is particularly encouraging in the small to medium type developments such as The Harmonie in Cheung Sha Wan and Yoho Hub in Yuen Long.

No. of Transactions Analysis for the Primary Residential Market in Urban & Non-Urban Areas

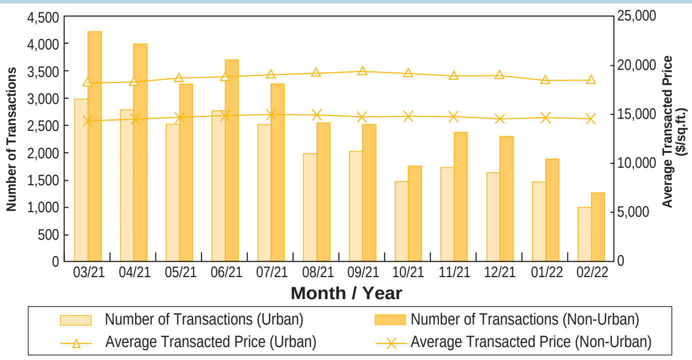


Transaction volume dropped in secondary market

End-users were cautious about the residential market due to worsen pandemic situation in January, suppressing buying interest and prolonging the "wait-and-see" mentality. According to our compiled statistics, the number of transaction figures in urban areas and non-urban areas decreased by 21% and 18% respectively during the aforesaid comparison period.

The slow down in transaction activity showing in general, has been corresponding with modest adjustment in prices. In fact, although average prices of secondary residential property remained relatively firm towards the end of 2021, however, latest achieved transaction prices of certain housing units have been observed to fall below initial asking prices. In accordance with our compiled records, average prices of secondary residential property in urban areas decreased by 2.5% while in non-urban areas have moderated by approximately 1%.

Price Trend and No. of Transactions Analysis for the Secondary Residential Market in Urban & Non-Urban Areas



Prices seen moderate adjustment in selected popular housing estates

According to our records, average prices have been moderately reduced in our analyzed popular private housing estates, namely Taikoo Shing, Heng Fa Chuen, South Horizon, Mei Foo Sun Chuen, Whampoa Garden, Sceneway Garden, Caribbean Coast and City One Shatin in the region of 2% to 5% over the past three months' period. Among these popular housing estates, Whampao Garden recorded noticeable average price drop, translating from $17,191 per sq. ft. to $16,399 per sq. ft., representing a decrease of approximately 4.6% while average prices of Lohas Park and Metro Harbourview remained firm during the aforesaid comparable period.

The Performance of Selected Popular Housing Estates During Sep 21 - Feb 22

Estates	Average Transacted Price ($psf)			Average Rental ($psf)			Yields (%)	
	Sep - Nov 21	Dec 21 - Feb 22	% Change	Sep - Nov 21	Dec 21 - Feb 22	% Change	Sep - Nov 21	Dec 21 - Feb 22
Caribbean Coast	12,241	12,035	-1.7%	26.0	25.0	-3.8%	2.5	2.5
City One Shatin	17,867	17,373	-2.8%	41.0	39.0	-4.9%	2.8	2.7
Heng Fa Chuen	16,718	16,165	-3.3%	35.5	33.0	-7.0%	2.5	2.4
Lohas Park	15,288	15,489	1.3%	30.5	32.0	4.9%	2.4	2.5
Mei Foo Sun Chuen	13,714	13,336	-2.8%	33.5	31.5	-6.0%	2.9	2.8
Metro Harbourview	19,458	19,522	0.3%	42.0	41.0	-2.4%	2.6	2.5
Sceneway Garden	15,372	15,014	-2.3%	32.0	31.0	-3.1%	2.5	2.5
South Horizons	17,837	17,077	-4.3%	36.0	34.0	-5.6%	2.4	2.4
Taikoo Shing	19,769	19,065	-3.6%	38.0	38.0	0.0%	2.3	2.4
Whampoa Garden	17,191	16,399	-4.6%	36.5	36.0	-1.4%	2.5	2.6

For reference only.

Contraction in luxury market's activity

The luxury residential sector has displayed it's relative dormancy since January in the wake of worsen pandemic situation and poor investment sentiment which continued to deter both investors and end-users from entering the market. In fact, successful transactions were noted to be mainly by wealthiest local end-users with fewer originated from overseas and Mainland China. In accordance to our compiled records, transacted prices of analysed luxury buildings have seen diversified movement over past months. For instance, whilst prices of Hillsborough Court recorded a decrease of approximately 6%, Hong Kong Parkview edged up by around 3.5%. However, it is noticeable that end-user purchasers of high-end luxury sector are still displaying more optimism in Hong Kong's future economic outlook and still hold a positive view towards this sub-sector as modest price growth has still been realized in some transactions.

Rents are highly sensitive to prevailing demand condition particularly in the luxury leasing market. Despite evident cut-backs in the budget of expatriates by certain number of overseas corporations, seasonal and continuing poor economic environment combined to overshadow the market since January, as such leasing activities were extremely depressed. Our compiled data showed that rentals for selected luxury apartments have moderated downward in past months. For instance, while effective rent of Clovelly Court in Mid-Level Central recorded a decrease of approximately 2%, transacted rentals of Residence Bel-Air (Apartment) in Island South edged down by around 1.9%.

The Performance of Luxury Residential Market During Sep 21 - Feb 22

Buildings	Transacted Price ($psf)			Rental ($psf)			Yields (%)		
	Sep - Nov 21	Dec 21 - Feb 22	% Change	Sep - Nov 21	Dec 21 - Feb 22	% Change	Sep - Nov 21	Dec 21 - Feb 22	% Change
MID-LEVEL CENTRAL									
Tregunter	29,820	35,246	18.2%	47.3	46.7	-1.4%	1.9	1.6	-15.8%
Hillsborough Court	31,549	29,639	-6.1%	50.3	48.0	-4.6%	1.9	1.9	0.0%
Clovelly Court	43,423	N.A.	N.A.	49.7	48.7	-2.0%	1.4	N.A.	N.A.
Dynasty Court	43,665	43,076	-1.3%	53.7	53.3	-0.6%	1.5	1.5	0.0%
MID-LEVEL EAST / HAPPY VALLEY									
Cavendish Heights	31,430	29,563	-5.9%	49.0	49.7	1.4%	1.9	2.0	5.3%
The Legend	31,134	28,785	-7.6%	52.0	52.0	0.0%	2.0	2.2	10.0%
Leighton Hill	48,300	55,971	15.9%	61.3	61.7	0.5%	1.5	1.3	-13.3%
Beverly Hill	28,860	29,125	0.9%	31.3	33.3	6.4%	1.3	1.4	7.7%
HONG KONG SOUTH									
Marinella (Apartment)	35,380	34,582	-2.3%	52.7	54.3	3.2%	1.8	1.9	5.6%
Residence Bel-Air (Apartment)	28,718	29,193	1.7%	52.0	51.0	-1.9%	2.2	2.1	-4.5%
Redhill Peninsula (Apartment)	26,106	26,549	1.7%	47.3	46.7	-1.4%	2.2	2.1	-4.5%
Hong Kong Parkview	28,988	30,002	3.5%	47.3	47.3	0.0%	2.0	1.9	-5.0%

For reference only.

Market prospect

Mass residential prices so far have reverted to a decline in the range of 1% to as much as 5% on average over the past three months' period. In fact, market sentiment was dampened by various negative factors, including the uncertainty of the pandemic, unfavourable global economic environment as well as the tightened social distancing measures. This aside, the visibly deteriorating local business environment, restricted cross-border travel coupled with demand-side control measures still in force seem to inevitably suggest further decreasing activities corresponding with mild adjustment in prices at least in the months ahead. ●

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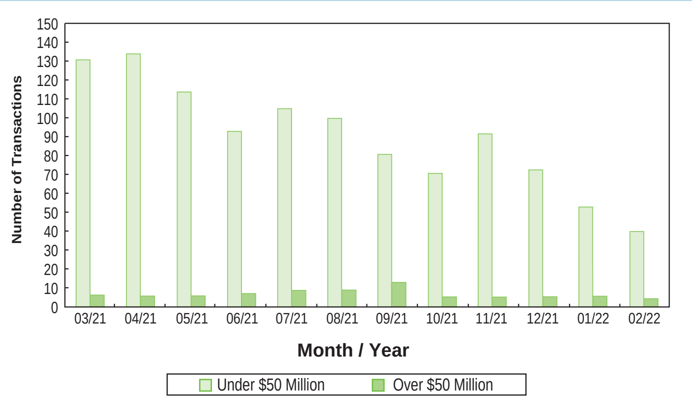
Office

MARCH, 2022

Our compiled statistics recorded a further downward trend in monthly sales activity of mass office market since January. In particular, with fifth wave of pandemic outbreak spreaded rapidly since then, buying demand was suppressed corresponding with adverse local investment environment. In accordance to our compiled statistics, overall transacted volume dwindled by 32%, translating from 267 deals to 181 deals during December 2021 to February 2022 when compared to preceding period. Besides, sales volume of office premises involving purchase price over $50 million also decreased by approximately 35%.

Number of Office Transactions Analysis during Mar 21 - Feb 22

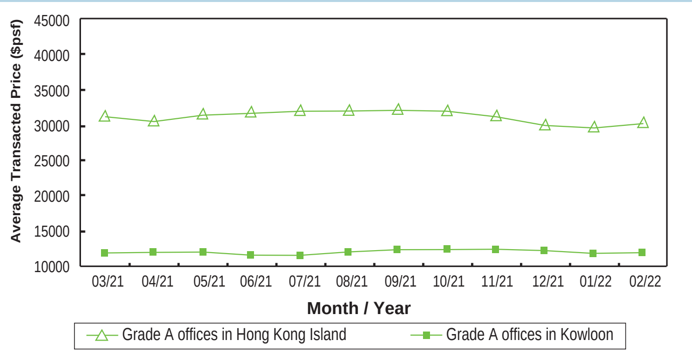


Thin sales activity in Grade A office sector

Sales activity in Grade A office sector slowed down during last couple of months in light of the worsened pandemic situation amid the economic uncertainties, the inflow of investment funds from both Mainland and overseas virtually stalled. This aside, it is noticeable that increasing number of vendors have continued to off-loading prime office properties into the market with discounted prices; however, corresponding successful transacted volume has remained in a low level. In accordance to our analysis, among the few significant deals including subdivided office units in Lippo Centre and Shun Tak Centre were sold for $22,876 per sq.ft. and $26,953 per sq.ft. respectively during the comparable period.

Leasing activity of Grade A office market remained in doldrums during last couple of months. Although leasing commitments registered a slight improvement towards the end of 2021, the decentralization trend alongside the downsizing of certain companies leading to sluggish demand for office space in traditional business districts. In fact, Grade A offices in certain core business districts recorded high vacancy rates of late.

Price Trend for Major Grade A Offices in Hong Kong Island & Kowloon



Disaligned with the generally gloomy office market outlook, corporations particularly from international banking and financial corporations with less rental cost constraints still elected to take up large floor space in selected prime office buildings with "reasonable" rental packages as compared with past years. Recent market sources indicated a leading investment firm has committed approximately 9,240 sq.ft. of office space in Cheung Kong Center for $110 / sq.ft., whilst a global risk assessment firm has renewed lease contract for approximately 19,400 sq.ft. of office space in The Center for $70 / sq.ft., reflecting there has still been a gradual accumulation of pent-up rental demand of quality office stock with unique locational attributes in core business districts.

Nevertheless, in the absense of a significant source of renewed demand particularly from Mainland corporations, ups and downs of rental trends could well prevail at least in the near term. Referring to our compiled data, average rental of Lippo Centre and Far East Finance Centre edged up by 2.5% and 2% respectively, while Admiralty Centre and Convention Plaza dropped by 7% and 2.1% respectively during the aforesaid comparable period.

The Performance of Selected Prime Offices During Sep 21 - Feb 22

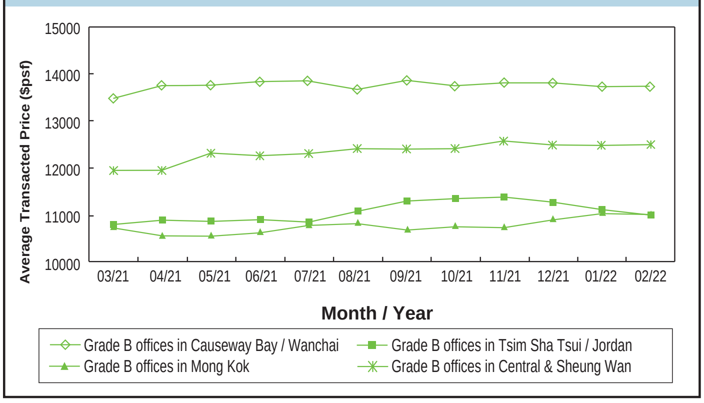
Buildings	Transacted Price ($psf)			Rental ($psf)		
	Sep - Nov 21	Dec 21 - Feb 22	% Change	Sep - Nov 21	Dec 21 - Feb 22	% Change
9 Queen's Road Central	N.A.	N.A.	N.A.	60.0	59.0	-1.7%
Admiralty Centre	N.A.	N.A.	N.A.	41.0	38.0	-7.3%
Convention Plaza	N.A.	N.A.	N.A.	48.0	47.0	-2.1%
Far East Finance Centre	N.A.	N.A.	N.A.	49.0	50.0	2.0%
King Palace Plaza (K.T.)	10,595	N.A.	N.A.	26.0	23.0	-11.5%
Lippo Centre	N.A.	22,876	N.A.	40.0	41.0	2.5%
Rykadan Capital Tower	N.A.	N.A.	N.A.	22.0	22.0	0.0%
Shun Tak Centre	N.A.	26,953	N.A.	49.0	50.0	2.0%

For reference only.
Subject to Land Registry and others

Grade B office market consolidated

While transaction volume in Grade B office sector continued to slide in last couple of months due to poor investment sentiment and subsided take-up, average prices have seen mixed movement. According to our compiled statistics, average unit prices of offices in our analyzed districts such as Central/Sheung Wan, North Point and Mong Kok increased within 1% to 2.3%, whilst Wanchai/Causeway Bay, Tsim Sha Tsui/Jordan and Yau Ma Tei declined within 1% to 3% during December 2021 to February 2022 when compared to preceding three months' period.

Price Trend for Major Grade B Offices in Selected Districts



In the context of rental market, although overall absorption in super prime Grade B office leasing market remained relatively slow during last couple of months, however with wide selection of quality office stock corresponding with competitive rental packages available to let among established business districts have motivated more companies with sensitive required cost outlay to move to non-core business districts. Referring to market information, noticeable leasing transactions included a global logistics service provider leased approximately 36,000 sq.ft. of Landmark East and a leading shipping company leased approximately 35,000 sq.ft. of Manulife Place in Kwun Tong.

With negative investment sentiment prevailing, our compiled analysis reflected that sizable transactions remained very thin during past couple of months. Noticeable transactions included CLP Group purchased office portion of a new commercial lot in Kai Tak for $3.38 billion, and a local listed company acquired 28/F. of 888 Lai Chi Kok Road in Cheung Sha Wan for $387.86 million.

Market prospect

The market trend over past months was one of declining average rentals with a slow take-up rate. The prevailing high vacancy rates and bulk supply particularly in certain secondary districts is bound to continue to maintain pressure on rents and prices at least in the short term. Meanwhile, we believe the focus of the investment and leasing market to continuously shift to decentralized locations where more quality office stock that possess optimal prestige and ample facilities and accessibility. In general, in the presence of weakened investment sentiment and demand, it is envisaged that the mass office sector will continue to exhibit a period of further dormancy unless and until a favourable business conditions as well as a well-contained pandemic environment starts to emerge. ●

SINCE 1971
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Retail
MARCH, 2022

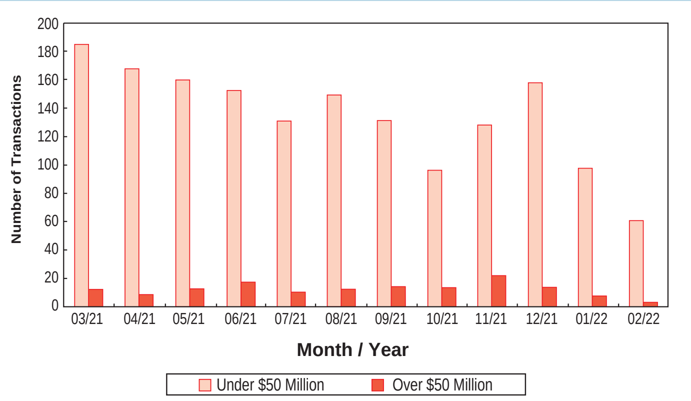
Hong Kong Tourism Board released that the overall tourism arrivals to Hong Kong during January to February were merely 9,690, representing a decrease of approximately 2% when compared with the same period in 2021. However, arrivals from Mainland China during the two months' period increased modestly, while total number of visitors from short haul markets also displayed contraction in Hong Kong's inbound tourism, indicating a drop of around 22% over the same period in 2021. On the other hand, average occupancy rate across all categories of hotels in February was 55%, representing a drop of 3.5% when compared to January. According to Census and Statistics Department, the value of total retail sales in February decreased by 14.6% when compared with the same month in 2021.

Activity in retail property market remained inactive

Following the onslaught of the fifth wave of the local COVID-19 epidemic at the beginning of this year, the demand for retail premises continued to weaken. Despite transaction turnover was decreasing, both retail prices as well as rents fell as investors and end-users were cautious over the near term economic outlook. This aside, in the light of the inbound tourism remaining frozen, vacancy rates continuing to surge together with adverse local economic conditions; all such negative variables have contributed together in accounting for the further slow down in market activity. Meanwhile, it is noticeable that since current rental yields hold only limited appeal to vendors/investors, some have already decided to dispose properties at discounted prices.

In accordance to our compiled statistics, the total number of transactions of retail premises decreased by approximately 16% during December 2021 to February 2022 when compared to preceding three months' period. In particular, based on our data, the sales activity of retail accommodation involving purchase prices of over $50 million dwindled by around 49%.

Number of Shop Transactions Analysis during Mar 21 - Feb 22



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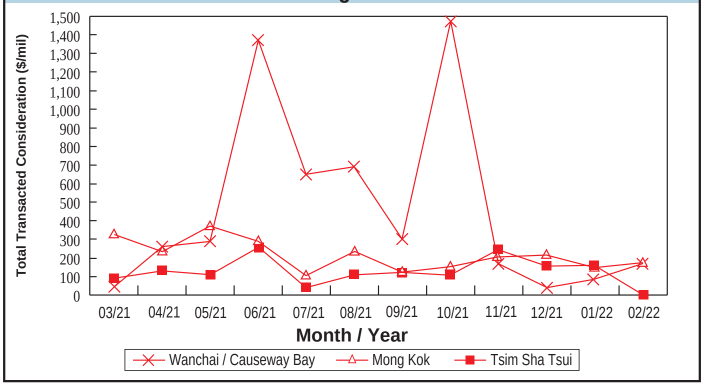
It is noticeable that effective rents of selected retail accommodation are significantly lower compared to the same period during last couple of years. This does endorse the view that the growth in demand for rental space has been significantly lagged behind the substantial supply generated from the "consolidated" market. Hence, it is anticipated that only retail premises which are priced "competitively" and those with particularly favourable locational attributes will be able to sustain investors support in the sales market.

Transacted Consideration slided

In accordance to our compiled records, the overall transacted consideration for overall sales of retail premises in Wanchai/Causeway Bay and Tsimshatsui decreased by approximately 87% and 33% while Mongkok increased by 12% during December 2021 to February 2022 when compared to preceding three months' period. This aside, the total number of transactions for shop premises sold over $50 million in Mongkok surged by 2 times while Tsimshatsui dropped by 25% over the aforesaid comparison period.

Transacted Consideration for All Retail Premises in Selected Districts during Mar 21 - Feb 22



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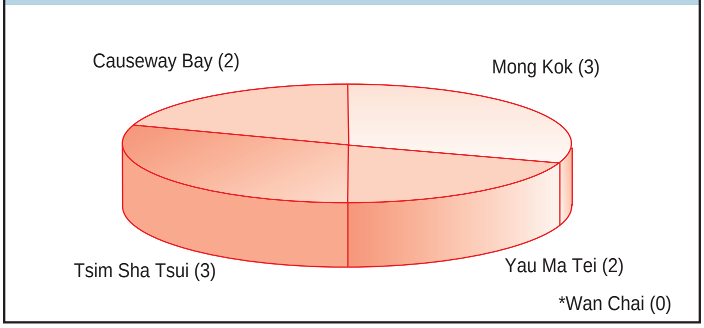
Number of Transactions for Shop Premises sold over $50 Million in Five Major Core Districts during Dec 21 - Feb 22



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Large scale transactions remained thin

Although the recent discounted prices set against continued freefalls of rents, the rate of absorption of retail properties has still seen no remarkable improvement. Among the few large scale transactions included the sale of Commercial Accommodation of Indihome in Tsuen Wan and Shop B on G/Fl. of China Insurance Group Building in Sheung Wan with respective price of $400 million and $208 million.

Selected Sizable Shop Transactions During Dec 21 - Feb 22

Properties	Transaction Amount ($/Mil.)	(Net Area) / Gross Floor Area (sq.ft.)	(Net Area) / Gross Floor Area ($/sq.ft.)	Transaction Month
Commercial Accommodaton, Indihome, No.138 Yeung Uk Road, Tsuen Wan.	$400.00	49,200	$8,130	12/21*
Commercial Accommodation & CP C1-C4 & MCP8 on B/F., Upper Riverbank, No.11 Muk Tai Street, Kai Tak.	$285.00	12,217	$23,328	12/21
Shop B on G/F., China Insurance Group Building, No.141 Des Voeux Road Central, Sheung Wan.	$208.00	3,805	$54,665	02/22
Shop 1-13 on G/F. & Others, Blk A, Mei Sun Lau, No.442 Des Voeux Road West, Sai Wan.	$154.80	12,664	$12,224	12/21*
Shop 3, 4 on G/F., Cite 33, No.33 Lai Chi Kok Road, Mong Kok.	$130.10	3,589	$36,250	12/21
G/F., Kiu Kin Mansion, No.566 Nathan Road, Yau Ma Tei.	$130.00	2,600	$50,000	12/21
Shop A, D, E & F on G/F., Golden Dragon Building, Nos.41-51 Tang Lung Street, Causeway Bay.	$126.00	N.A.	N.A.	02/22
G/F., Yuen King Building, No.30 Sai Yeung Choi Street South, Mong Kok.	$120.00	650	$184,615	02/22
Shop A & B on 1/F., Wai Kee House, Nos.89-91 Sai Yee Street, Mong Kok.	$92.80	N.A.	N.A.	01/22
Shop 6, 7 on G/F., Prosperity Building, No.61 Tung Choi Street, Mong Kok.	$90.00	881	$102,157	01/22*

*P-ASP
Subject to Land Registry records.
For reference only.

Market prospect

In general, local consumption sentiment slackened amid the fifth wave of COVID-19 pandemic since January. As such, the retail property market was experiencing substantial downward pressure in rent and price levels, with abundant available supply in the market. In reality, the immediate prospects of the general retail property market are still anticipated to be over-hung by negative factors such as inbound tourism remained stall, reduced end-user demand, relatively high level of vacant stock as well the uncertain local economic outlook. At present, with market rents having declined to a relatively low level, fundamental demand remains weak for any momentum to materialize, activity is envisaged to confine to selected prime properties with "huge" discounted prices, hence this sector will continue to remain in a stage of adjustment at least in the short term. ●